STAFF PAPER

June 2019

IFRS® Interpretations Committee meeting

Project	**Holdings of Cryptocurrencies**		
Paper topic	Agenda decision to finalise		
CONTACT	Craig Smith	csmith@ifrs.org	+44 (0)20 7246 6410

Introduction

1. In March 2019 the IFRS Interpretations Committee (Committee) published a tentative agenda decision on holdings of cryptocurrencies. For the purposes of its discussion, the Committee considered cryptocurrencies with all the following characteristics:

   (a) a cryptocurrency that is a digital or virtual currency recorded on a distributed ledger and uses cryptography for security.

   (b) a cryptocurrency that is not issued by a jurisdictional authority or other party.

   (c) a holding of a cryptocurrency that does not give rise to a contract between the holder and another party.

2. The Committee concluded that IAS 2 *Inventories* applies to cryptocurrencies when they are held for sale in the ordinary course of business. If IAS 2 is not applicable, an entity applies IAS 38 *Intangible Assets* to holdings of cryptocurrencies.

3. The Committee also highlighted in the tentative agenda decision disclosure requirements applicable to an entity's holdings of cryptocurrencies.

4. The objective of this paper is to:

   (a) analyse the comments on the tentative agenda decision; and

(b) ask the Committee whether it agrees with our recommendation to finalise the agenda decision.

5. Appendix A includes proposed wording of the agenda decision.

Comment letter summary

6. We received 20 comment letters by the comment letter deadline. All comments received, including any late comment letters, are available on our website. Agenda Paper 12A to this meeting reproduces all comments received by the comment letter deadline—the comments included in Agenda Paper 12A have been analysed in this agenda paper.

7. The following paragraphs distinguish comments about the tentative agenda decision from those suggesting that the Board undertake standard-setting.

Tentative agenda decision

8. Seven respondents (the Institute of Chartered Accountants of India, Deloitte, the Malaysian Accounting Standards Board, the National Board of Accountants and Auditors (Tanzania), the Accounting Standards Committee of Germany, Grant Thornton and the Indonesian Financial Accounting Standards Board (IAI)) agree with the Committee's technical analysis and with finalising the agenda decision. Deloitte comments on some aspects of the tentative agenda decision.

9. Four other respondents (the Accounting Standards Board of Japan (ASBJ), IOSCO, Canadian Securities Administrators (CSA), and Brane Inc) agree with the Committee's technical analysis. Two (the ASBJ and IOSCO) do not comment on whether to finalise the agenda decision; the other two suggest not finalising the agenda decision.

10. The Korea Accounting Standards Board (KASB) agrees with the Committee's technical analysis that a cryptocurrency meets the definition of an intangible asset in IAS 38 but say the Committee should delay publishing the agenda decision pending further work.

11. Three respondents (David Hardidge, the International Air Transport Association (IATA) and the Securities and Exchange Commission Brazil (Brazil SEC)) question various aspects of the Committee's technical analysis and suggest not finalising the tentative agenda decision.

12. Five respondents (the Accounting Standards Board of Canada (AcSB), the Taiwan Accounting Research and Development Foundation (ARDF), Chamber of Digital Commerce, the Universidad de Chile and Consejo Mexicano de Normas de Información Financiera (CINIF)) do not comment on the Committee's technical analysis.

13. Paragraphs 16–51 of this paper discuss these comments further. We have split our analysis into the following categories:

    (a) the Committee's technical analysis (paragraphs 16–34); and

    (b) wording suggestions (paragraphs 35–48).

Standard-setting

14. 16 respondents (the AcSB, the ARDF, Chamber of Digital Commerce, CINIF, the Brazil SEC, David Hardidge, IATA, the CSA, the KASB, the Universidad de Chile, Brane Inc, the ASBJ, IOSCO, the Accounting Standards Committee of Germany, IAI and Grant Thornton) suggest that the Board consider undertaking standard-setting for holdings of cryptocurrencies either instead of, or in addition to, the Committee finalising the agenda decision.

15. Paragraphs 54–72 of this paper discuss these comments further.

The Committee's technical analysis

16. Some respondents comment on about the Committee's technical analysis. Those comments relate to:

    (a) cash (paragraphs 17–23);

    (b) presentation of holdings of cryptocurrencies (paragraphs 24–33); and

(c) other matters (paragraph 34).

Cash

Respondents' comments

17. Some respondents suggest that an entity could account for holdings of cryptocurrencies as cash. In particular:

    (a) IATA agrees that an essential element of cash is that it acts as a medium of exchange. However, IATA questions whether cash must be the monetary unit in pricing goods or services to such an extent that it acts like a functional currency. In IATA's view, cryptocurrencies should be treated as cash if they function as cash—IATA says this is evident for some cryptocurrencies that are widely used as a medium of exchange.

    (b) The Brazil SEC says 'in some transactions, cryptocurrencies are in fact a medium of exchange (eg used in exchange for goods or services) and may be used as the monetary unit when pricing goods or services'. The Brazil SEC also says it considers paragraph AG3 of IAS 32 *Financial Instruments: Presentation* to relate to the concept of functional currency because it focuses on the use of currency for pricing goods and measuring transactions for the purpose of recognition in the financial statements. It says cryptocurrencies could be considered similar to foreign currency, as described in paragraph 8 of IAS 21 *The Effects of Changes in Foreign Exchange Rates*—'foreign currency is a currency other than the functional currency of the entity'.

18. Although Deloitte and Brane Inc agree with the Committee's technical analysis, both respondents suggest that the Board consider a project to review and update the definition of cash in IFRS Standards. In particular, they suggest that the Board provide factors to enable an entity to assess how widespread the use of an asset must be to be considered a medium of exchange and, thus, cash.

Staff analysis

19. Paragraphs 13–29 of Agenda Paper 4A to the Committee's September 2018 meeting analyse why existing cryptocurrencies are not cash at this time. We continue to agree with this analysis.

20. Paragraph AG3 of IAS 32 states that 'currency (cash) is a financial asset because it represents the medium of exchange and is therefore the basis on which all transactions are measured and recognised in financial statements'. We think this implies that cash is expected to be used as a medium of exchange (ie used in exchange for goods or services) and as the monetary unit in pricing goods or services to such an extent that it would be the basis on which all transactions are measured and recognised in financial statements.

21. As noted in Agenda Paper 4A to the Committee's September 2018 meeting, we are not aware of any cryptocurrency that is used as a medium of exchange to such an extent it could be considered cash. Although, we are aware that some entities accept some cryptocurrencies as payment for goods or services, to our knowledge such entities are not widespread. In addition, we are unaware of any cryptocurrencies that are used as the monetary unit in pricing goods or services.

22. We think paragraph AG3 of IAS 32 is unrelated to the definition of functional currency (or foreign currency) in IAS 21, except to the extent that it describes cash/currency. That section of the application guidance in IAS 32 titled 'financial assets and financial liabilities' describes different types of assets and liabilities that are (and are not) financial assets and financial liabilities.

23. Paragraphs A12–A18 of Agenda Paper 12D to the Board's November 2018 meeting describe feedback from Committee members about undertaking a project to better define cash in IFRS Standards. Accordingly, the Board is aware of stakeholder concerns about the definition of cash in IFRS Standards. Nonetheless, when we next provide an update to the Board regarding cryptoassets, we will include the comments in these comment letters as part of that update.

Presentation of holdings of cryptocurrencies

Respondents' comments

24. Deloitte suggests that the Committee consider, and include in the agenda decision, the following:

    (a) how a holder determines whether to present cryptocurrencies as current or non-current applying IAS 1 *Presentation of Financial Statements*.

    (b) whether a holder might classify cryptocurrencies as held for sale applying IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Staff analysis

25. The tentative agenda decision describes how an entity determines which IFRS Standard to apply to holdings of cryptocurrencies, and outlines applicable disclosure requirements. It is already lengthy and thus we would recommend including additional topics only if there is identified need to include those topics.

26. We are not aware of significant concerns about the presentation of holdings of cryptocurrencies—either as current or non-current, or related to their classification as held for sale. Accordingly, we recommend that the Committee not add these topics to the agenda decision.

27. However, we have analysed the topics in paragraphs 28–33 below if the Committee were to decide to include some analysis in the agenda decision.

28. Paragraph 66 of IAS 1 states:

> An entity shall classify an asset as current when:
>
> (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
>
> (b) it holds the asset primarily for the purpose of trading;
>
> (c) it expects to realise the asset within twelve months after the reporting period; or
>
> (d) the asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to

> settle a liability for at least twelve months after the reporting period.
>
> An entity shall classify all other assets as non-current.

29. Paragraph 68 explains an entity's normal operating cycle:

> The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets that meet the definition of held for trading in IFRS 9) and the current portion of non-current financial assets.

30. In our view, this indicates that the assessment of whether a holding of cryptocurrencies is current or non-current depends on entity-specific factors, including how the entity intends to use the cryptocurrencies.

31. Paragraph 2 of IFRS 5 describes the scope of the Standard:

> The classification and presentation requirements of this IFRS apply to all recognised non-current assets and to all disposal groups of an entity. The measurement requirements of this IFRS apply to all recognised non-current assets and disposal groups (as set out in paragraph 4), except for those assets listed in paragraph 5 which shall continue to be measured in accordance with the Standard noted.

32. Appendix A of IFRS 5 defines a disposal group:

> A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction…

33. Accordingly, if an entity has assessed that its holdings of cryptocurrencies are a current asset applying IAS 1, it would apply IFRS 5 to those holdings only if they form part of a disposal group. Paragraphs 6–14 of IFRS 5 contain requirements describing when an entity classifies a disposal group as held for sale.

Other matters

34. Respondents raise the following other matters regarding the Committee's technical analysis:

Respondents' comments	**Staff analysis**
Consistency with other agenda decisions David Hardidge says, in his view, the conclusion in the tentative agenda decision conflicts with the Committee's agenda decision Deposits Relating to Taxes other than Income Tax (January 2019). He said: > I find [the] reasoning contradictory and illogical. Under the Deposits Agenda Decision, such a deposit is classified as a monetary item even though the holder does not control its use, does not control how the item is settled and does not know when it will be settled. Yet under the Tentative Agenda Decision, a cryptocurrency holding is not classified as a monetary item even though the holder can control how the asset is used, can choose whether the asset is converted into fiat currency or goods and services, can choose when that conversion occurs and has access to global exchanges.	The January 2019 staff paper on tax deposits explained that the tax deposit described in the request entitles the entity to receive a fixed or determinable amount of money and thus meets the definition of a monetary asset in IAS 38—'money held and assets to be received in fixed or determinable amounts of money'. Paragraph 16 of IAS 21 states that 'the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency'. This tentative agenda decision notes that a cryptocurrency does not give the holder a right to receive a fixed or determinable number of units of currency. Accordingly, cryptocurrencies are a non-monetary asset. IOSCO and the CSA noted their agreement with the Committee's conclusion that cryptocurrencies are non-monetary.

	We recommend no change to the tentative agenda decision in this respect.
References to IAS 1 and the Conceptual Framework David Hardidge suggests that the Committee include a reference to paragraph 19 of IAS 1 in the agenda decision. That paragraph discusses the extremely rare circumstances in which an entity departs from a requirement in IFRS Standards. The ARDF suggests that the Committee explain how an entity applies paragraphs 5.12–5.14 and 5.19–5.23 of the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) to evaluate existence and measurement uncertainty for holdings of cryptocurrencies and paragraphs 6.43–6.76 to select a measurement basis.	Paragraph 19 of IAS 1 is not applicable to holdings of cryptocurrencies and therefore it would be inappropriate to refer to it in the agenda decision. In our view, application of IFRS Standards to holdings of cryptocurrencies results in useful information for financial statement users (see paragraphs 70–72 of this paper). We also recommend not referring to the *Conceptual Framework* in the agenda decision. This is because an entity refers to the *Conceptual Framework* to select and apply an accounting policy only if (a) there is no IFRS Standard that specifically applies to the transaction; and (b) there are no requirements in IFRS Standards dealing with similar and related issues (paragraphs 10-11 of IAS 8). As noted in the tentative agenda decision, there are requirements in IFRS Standards that specifically apply to holdings of cryptocurrencies. Accordingly, an entity does not refer to the *Conceptual Framework* in accounting for holdings of cryptocurrencies.

Wording suggestions

35. Some respondents comment on the wording in the tentative agenda decision. These comments include:

    (a) Scope (paragraphs 36–40);

    (b) Other parties (paragraphs 41-45); and

    (c) Disclosure requirements (paragraphs 46–48).

Scope

Respondents' comments

36. IATA suggests that the Committee clarify the scope of the tentative agenda decision. The tentative agenda decision states:

> For the purposes of its discussion, the Committee considered a subset of cryptoassets—cryptocurrencies—with the following characteristics:
>
> a) A cryptocurrency is a digital or virtual currency that is recorded on a distributed ledger and uses cryptography for security.
>
> b) A cryptocurrency is not issued by a jurisdictional authority or other party.
>
> c) A holding of a cryptocurrency does not give rise to a contract between the holder and another party.

37. IATA said some cryptocurrencies may not have these characteristics. It suggests that the Committee limit the scope of this agenda decision to the holding of cryptocurrencies that meet all of these characteristics rather than define a cryptocurrency in this way.

38. Similarly, the ASCG states:

> Firstly, we note that there is not simply one type of cryptocurrency – even though many might think all cryptos are the same and are, in fact, like Bitcoin. Some cryptos may be

> liquid and accepted as a means of payment – which seems to hint at these being more like cash or currencies, others have a restricted use targeted at only some very specific service that can be rendered (e.g. a token), and again others may not come with any currency acknowledgement at all.

Staff analysis

39. The tentative agenda decision describes cryptocurrencies in this way to set the scope of the cryptocurrencies considered and to which the Committee's conclusions in the agenda decision apply. A cryptocurrency must have all the characteristics specified in the agenda decision to be within its scope.

40. We recommend some editorial changes to the tentative agenda decision in this respect to clarify the scope of the agenda decision (see Appendix A to this paper).

Other parties

Respondents' comments

41. IATA says the term 'other party' in the characteristics of a cryptocurrency described in the tentative agenda decision is unclear. In its view, all cryptocurrencies are issued by someone. IATA asks if the Committee intended to say 'other similar party'. If so, IATA recommends the Committee update characteristic b. to say:

> b. A cryptocurrency is issued to the public by other than a sovereign authority authorised to issue currency or similar organisation.

42. IATA says its suggestion would in effect exclude from the scope of the agenda decision private cryptocurrencies used for a particular purpose such as the clearing of payments, and those issued by central banks or international and regional organisations to member states.

Staff analysis

43. We think what most market participants term ‘cryptocurrencies’ are not issued by a single party—eg Bitcoin, Ether, etc. They are therefore within the scope of the agenda decision.

44. We think the term ‘other party’ in the agenda decision is important in determining its scope. This is because it excludes from the scope of the agenda decision some types of cryptoasset that have been issued by parties other than a jurisdictional authority. For example, this phrase results in the agenda decision excluding from its scope:

    (a) some so-called ‘stablecoins’—Stablecoins are cryptoassets that are designed to maintain a constant value when denominated in a fiat currency (eg USD). Stablecoins do this either through mathematical formula that aim to balance demand and supply to equalise the price or through holding a 1:1 ratio of a particular fiat currency as collateral.

    (b) cryptoassets issued by banks—Some banks have begun issuing cryptoassets. For example, in February 2019 JP Morgan announced it would begin issuing ‘JPM Coin’[1]. These cryptoassets appear to act in a similar way to stablecoins.

45. Some of these types of cryptoasset may give the holder a contractual right to receive cash or another financial asset from the issuer. In those cases, the cryptoasset would be expected the fail the third characteristic described in the agenda decision—‘a holding of a cryptocurrency does not give rise to a contract between the holder and another party’. However, in some cases it may be unclear whether the holder has a legally enforceable contract with another party. We have not analysed the accounting for such cryptoassets and, therefore, recommend not amending the scope of the agenda decision in this respect.

[1] See https://www.jpmorgan.com/global/news/digital-coin-payments.

Disclosure requirements

Respondents' comments

46. AcSB suggests that the Committee include a reference to paragraph 17(c) of IAS 1 in the agenda decision. That paragraph states:

> …A fair presentation also requires an entity: …
>
> (c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

47. AcSB says, in its view, if describing the fair value performance of a cryptocurrency is important to a user's understanding of the entity's financial position and profit or loss, a holder of cryptocurrencies should disclose this information unless it is already shown in the financial statements.

Staff analysis

48. Although we agree that an entity should disclose information that is important to a user's understanding of its financial statements, we disagree with the suggestion to refer to paragraph 17(c) of IAS 1. This is because we think doing so would imply that complying with IFRS Standards would not result in a fair presentation of holdings of cryptocurrencies. As noted in paragraphs 70–72 of this paper, we think complying with IFRS Standards provides useful information.

49. However, we have proposed some changes to the tentative agenda decision in this respect (see Appendix A to this paper). In particular, we recommend including a reference to paragraph 112 of IAS 1, which states:

> The notes shall:
>
> (a) present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 117–124;

(b) disclose the information required by IFRSs that is not presented elsewhere in the financial statements; and

(c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

Staff recommendation

50. On the basis of our analysis, we recommend finalising the agenda decision as published in *IFRIC Update* in March 2019 with some changes. We think an agenda decision that outlines how to determine which IFRS Standard to apply to holdings of cryptocurrencies, and the applicable disclosure requirements, is helpful to stakeholders. Stakeholders have raised questions in this respect in the past and, for example, CSA's comment letter indicates that entities with holdings of cryptocurrencies currently apply different Standards.

51. Appendix A to this paper sets out the proposed wording of the final agenda decision.

Question for the Committee
Does the Committee agree with our recommendation to finalise the agenda decision set out in Appendix A to this paper?

Other matters outside the scope of the agenda decision

52. Respondents comment on the following, which are outside the scope of the agenda decision:

    (a) Standard-setting (paragraphs 54–72); and

    (b) Other matters (paragraph 73).

53. When we next provide an update to the Board about cryptoassets, we will include a summary of respondents' comments regarding standard-setting.

Standard-setting

Respondents' comments

54. 16 respondents say the Board should consider undertaking standard-setting for holdings of cryptocurrencies either instead of, or in addition to, the Committee finalising the agenda decision.

55. Respondents support their view as follows:

(a) Useful information—Some say the information that results from applying IFRS Standards is 'inappropriate' or 'not the most useful information' because cryptocurrencies are a different type of asset from those in IAS 2 and/or IAS 38. Those respondents note that cryptocurrencies did not exist when the Board developed IAS 38. They highlight paragraphs 9 and 17 of IAS 38 as evidence that cryptocurrencies are different from the assets the Board considered when developing IAS 38—ie cryptocurrencies are not used in an entity's business; instead cryptocurrencies generate future economic benefits for the entity only through sale. Paragraphs 9 and 17 state:

> 9 Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, market knowledge and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, customer lists, mortgage servicing rights, fishing licences, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights.
>
> 17 The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset

by the entity. For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues.

(b) Established practice—Some say the differences in accounting practice (highlighted in the comment letter from CSA and in previous staff papers) indicates that some entities prefer to measure their holdings of cryptocurrencies at fair value through profit or loss (FVTPL).

(c) 'Intent' of holdings of cryptocurrencies—Some say entities hold cryptocurrencies for different reasons and the way an entity accounts for its holdings of cryptocurrencies should reflect its intentions. For example, some respondents say entities often hold cryptocurrencies for speculative or trading purposes and, in that case, they think IAS 38 does not provide the most useful information.

(d) Wider consideration—Some say the Board should consider cryptocurrencies more widely than just holdings. For example, IATA suggests that the Board consider how an entity would account for 'a cryptocurrency receivable or payable'.

56. Respondents that suggest standard-setting propose different projects:

(a) The ASBJ suggests that an entity be required to measure holdings of cryptocurrencies with an active market at FVTPL.

(b) David Hardidge says an entity should measure holdings of cryptocurrencies at FVTPL, regardless of whether there is an active market.

(c) The Chamber of Digital Commerce and Brane Inc suggest accounting that depends on the entity's intent regarding its holdings of cryptocurrencies.

(d) Some respondents, including the CSA and IOSCO, suggest that the Board amend IAS 38 to remove cryptocurrencies from its scope, whilst continuing to monitor developments in cryptoassets. Accordingly, an entity would apply IAS 8 in developing an accounting policy for holdings of cryptocurrencies other than inventory.

57. In addition, Brane Inc highlights some other factors for consideration if the Board decides to undertake standard-setting. In particular, it notes differences between cryptocurrencies based on a proof-of-work system versus a proof-of-stake system.

Staff analysis

58. The Board discussed whether to undertake standard-setting for holdings of cryptocurrencies at its meeting in November 2018 (see Agenda Paper 12D to that meeting). The Board decided not to undertake standard-setting but instead to monitor developments in cryptoassets. In considering whether to add a project to its work plan, the Board considered:

    (a) the usefulness of information that results from applying existing Standards; and

    (b) the prevalence of holdings of cryptocurrencies.

59. In its comment letter, the CSA provides some recent information about the prevalence of holdings of cryptocurrencies in Canada. Otherwise, the feedback provided by respondents that suggest standard-setting aligns with stakeholder feedback already considered by the Board in its discussions.

60. Although these comments will be reported to the Board at a later date, we think it might be helpful to comment on some aspects of the feedback:

    (a) Intangible assets within the scope of IAS 38 (paragraphs 61–63);

    (b) Holding for speculation (paragraphs 64–68); and

    (c) Usefulness of the information that results from applying IFRS Standards (paragraphs 70–72).

Intangible assets within the scope of IAS 38

61. Some respondents say, in their view, the items listed in paragraph 9 of IAS 38, and the examples of future economic benefits in paragraph 17, indicate the types of assets the Board considered to be within the scope of IAS 38 when it developed the Standard. The items listed would typically be expected to be used in an entity's business, whereas cryptocurrencies are not.

62. We agree that the Board did not have cryptocurrencies or cryptoassets in mind when it amended IAS 38 in 2004 as part of its project on Business Combinations—those assets did not exist at that time. The Board nonetheless intentionally designed the scope of IAS 38 to capture all items that meet the definition of an intangible asset but are not within the scope of other Standards. Paragraphs BC4 and BC5 of IAS 38 state:

> BC4 An intangible asset was defined in the previous version of IAS 38 as 'an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative services'. The definition in the revised Standard eliminates the requirement for the asset to be held for use in the production or supply of goods or services, for rental to others, or for administrative services.
>
> BC5 The Board observed that the essential characteristics of intangible assets are that they:
>
> (a) are resources controlled by the entity from which future economic benefits are expected to flow to the entity;
>
> (b) lack physical substance; and
>
> (c) are identifiable.
>
> The Board concluded that the purpose for which an entity holds an item with these characteristics is not relevant to its classification as an intangible asset, and that all such items should be within the scope of the Standard.

63. Accordingly, as required by paragraph 2 of IAS 38 an entity applies IAS 38 in accounting for 'an identifiable non-monetary asset without physical substance', except for such assets within the scope of another Standard, financial assets, and particular assets or expenditure related to the extractives industry (as specified in paragraph 2(c) and (d)).

Holding for speculation

64. Some respondents say entities often hold cryptocurrencies for speculative purposes and that, in their view, IAS 38 does not provide useful information in such cases.

65. If an entity is speculating on the value of a particular cryptocurrency, it is holding that cryptocurrency for sale. Obtaining cryptocurrencies for the purpose of selling indicates that the entity's business model is to sell its holdings of cryptocurrencies. Accordingly, we think that the entity is likely to be holding the cryptocurrency 'for sale in the ordinary course of business' (paragraph 6 of IAS 2).

66. In that case, the entity accounts for its holdings of that cryptocurrency applying IAS 2, and not IAS 38. As a consequence, considering the information that might be provided applying IAS 38 to such holdings is not relevant.

67. We also note that some of those entities may be considered broker-traders applying paragraph 5 of IAS 2 because they:

    (a) buy or sell the cryptocurrencies on their own account; and

    (b) acquire the cryptocurrencies with the purpose of selling in the near future and generating a profit from fluctuations in price.

68. In that case, the entity can measure its holdings of cryptocurrencies at FVTPL.

69. If an entity is holding a cryptocurrency for long-term speculation in the ordinary course of business, it would not meet the description of a broker-trader in paragraph 5 of IAS 2. Instead, the entity would measure its holdings of cryptocurrencies at the lower of cost and net realisable value (paragraph 9 of IAS 2).

Usefulness of the information that results from applying IFRS Standards

70. Some respondents that suggest standard-setting do so because of their views about the usefulness of the information that results from applying IFRS Standards to holdings of cryptocurrencies.

71. In this respect and in summary, we note the following regarding the application of existing IFRS Standards to holdings of cryptocurrencies:

    (a) if an entity is speculating on short-term price fluctuations of cryptocurrencies, it could measure its holdings of cryptocurrencies at FVTPL (broker-trader requirements as described in paragraphs 3(b) and 5 of IAS 2). As explained above, we would assume that such an entity holds the cryptocurrencies for sale in the ordinary course of business.

(b) if an entity is holding cryptocurrencies for long-term speculation for sale in the ordinary course of business, it measures its holdings of cryptocurrencies at the lower of cost and net realisable value (paragraph 9 of IAS 2).

(c) if an entity is not holding cryptocurrencies for sale in the ordinary course of business and there is an active market for the cryptocurrency, it can elect to measure its holdings at fair value applying IAS 38. In that case, fair value increases compared to cost are not recognised in profit or loss, however fair value decreases compared to cost are recognised in profit or loss.

(d) if an entity is not holding cryptocurrencies for sale in the ordinary course of business and there is no active market for the cryptocurrency, then the entity is not permitted to measure its holdings of the cryptocurrency at fair value. Because cryptocurrencies typically generate economic benefits only from sale, we understand that it is particularly difficult to determine fair value when there is no active market. In this respect, IAS 38 restricts the use of fair value in situations in which there could be very significant measurement uncertainty.

(e) as outlined in the agenda decision, any entity holding cryptocurrencies must apply the applicable disclosure requirements in IFRS Standards. This would include fair value information, at and after the reporting date, to the extent that such information is relevant to an understanding of the entity's financial statements.

72. In our view, application of existing IFRS Standards provides useful information to financial statement users.

Other matters outside the scope of the agenda decision

73. David Hardidge raises the following other matters:

Respondent comments	**Staff analysis**
Other transactions	

He asks the Committee to clarify: (a) whether receivables of non-financial assets are a monetary item; and (b) the accounting for long-term prepayments.	We have not analysed these transactions because they are unrelated to the holding of cryptocurrencies.
Monitoring activities He asks the Board to clarify what it means by 'monitor the development of cryptoassets' in November 2018's IASB Update.	Paragraph 10 of Agenda Paper 12D to the Board's November 2018 meeting explains the monitoring activity being undertaken. It notes that the staff are: (a) performing a regular keyword search of the financial statements of IFRS reporters; (b) performing a regular review of press clippings, academic research and other literature on cryptoassets; and (c) engaging in regular discussions with accounting firms, national standard-setters and regulators.

Appendix A—Proposed wording of the agenda decision

A1 We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through).

Holdings of Cryptocurrencies

The Committee discussed how IFRS Standards apply to holdings of cryptocurrencies.

The Committee noted that a range of cryptoassets exist. For the purposes of its discussion, the Committee considered a subset of cryptoassets ~~— cryptocurrencies —~~ with <u>all</u> the following characteristics <u>that this agenda decision refers to as a 'cryptocurrency'</u>:

a) A ~~cryptocurrency is a~~ digital or virtual currency ~~that is~~ recorded on a distributed ledger and uses cryptography for security.

b) ~~A cryptocurrency is~~ Not issued by a jurisdictional authority or other party.

c) ~~A holding of a cryptocurrency~~ Does not give rise to a contract between the holder and another party.

Nature of a cryptocurrency

Paragraph 8 of IAS 38 *Intangible Assets* defines an intangible asset as 'an identifiable non-monetary asset without physical substance'.

Paragraph 12 of IAS 38 states that an asset is identifiable if it is separable or arises from contractual or other legal rights. An asset is separable if it 'is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability'.

Paragraph 16 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* states that 'the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency'.

The Committee observed that a holding of cryptocurrency meets the definition of an intangible asset in IAS 38 on the grounds that (a) it is capable of being separated from the holder and sold or transferred individually; and (b) it does not give the holder a right to receive a fixed or determinable number of units of currency.

Which IFRS Standard applies to holdings of cryptocurrencies?

The Committee concluded that IAS 2 *Inventories* applies to cryptocurrencies when they are held for sale in the ordinary course of business. If IAS 2 is not applicable, an entity applies IAS 38 to holdings of cryptocurrencies. The Committee considered the following in reaching its conclusion.

Intangible Asset

IAS 38 applies in accounting for all intangible assets except:

a) those that are within the scope of another Standard;

b) financial assets, as defined in IAS 32 *Financial Instruments: Presentation*;

c) the recognition and measurement of exploration and evaluation assets; and

d) expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources.

Accordingly, the Committee considered whether a holding of cryptocurrency meets the definition of a financial asset in IAS 32 or is within the scope of another Standard.

Financial asset

Paragraph 11 of IAS 32 defines a financial asset. In summary, a financial asset is any asset that is: (a) cash; (b) an equity instrument of another entity; (c) a contractual right to receive cash or another financial asset from another entity; (d) a contractual right to exchange financial assets or financial liabilities with another entity under particular conditions; or (e) a particular contract that will or may be settled in the entity's own equity instruments.

The Committee concluded that a holding of cryptocurrency is not a financial asset. This is because a cryptocurrency is not cash (see below). Nor is it an equity instrument of another entity. It does not give rise to a contractual right for the holder and it is not a contract that will or may be settled in the holder's own equity instruments.

Cash

Paragraph AG3 of IAS 32 states that 'currency (cash) is a financial asset because it represents the medium of exchange and is therefore the basis on which all transactions are measured and recognised in financial statements. A deposit of cash with a bank or similar financial institution

is a financial asset because it represents the contractual right of the depositor to obtain cash from the institution or to draw a cheque or similar instrument against the balance in favour of a creditor in payment of a financial liability.'

The Committee observed that the description of cash in paragraph AG3 of IAS 32 implies that cash is expected to be used as a medium of exchange (ie used in exchange for goods or services) and as the monetary unit in pricing goods or services to such an extent that it would be the basis on which all transactions are measured and recognised in financial statements.

Some cryptocurrencies can be used in exchange for particular good or services. However, the Committee noted that it is not aware of any cryptocurrency that is used as a medium of exchange and as the monetary unit in pricing goods or services to such an extent that it would be the basis on which all transactions are measured and recognised in financial statements. Consequently, the Committee concluded that a holding of cryptocurrency is not cash because cryptocurrencies do not currently have the characteristics of cash.

Inventory

IAS 2 applies to inventories of intangible assets. Paragraph 6 of that Standard defines inventories as assets:

a) held for sale in the ordinary course of business;

b) in the process of production for such sale; or

c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

The Committee observed that an entity may hold cryptocurrencies for sale in the ordinary course of business. In that circumstance, a holding of cryptocurrency is inventory for the entity and, accordingly, IAS 2 applies to that holding.

The Committee also observed that an entity may act as a broker-trader of cryptocurrencies. In that circumstance, the entity considers the requirements in paragraph 3(b) of IAS 2 for commodity broker-traders who measure their inventories at fair value less costs to sell. Paragraph 5 of IAS 2 states that broker-traders are those who buy or sell commodities for others or on their own account. The inventories referred to in paragraph 3(b) are principally acquired

with the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin.

Disclosure

An entity is required to disclose the information required by IFRS Standards as well as any additional information that is relevant to an understanding of an entity's financial statements (paragraph 112 of IAS 1 *Presentation of Financial Statements*). In particular, the Committee noted the following disclosure requirements in the context of holdings of cryptocurrencies:

a) An entity applies the disclosure requirements in the IFRS Standard applicable to its holdings of cryptocurrencies. Accordingly, an entity applies the disclosure requirements in (a) paragraphs 36–39 of IAS 2 to cryptocurrencies held for sale in the ordinary course of business, and (b) paragraphs 118–128 of IAS 38 to holdings of cryptocurrencies to which it applies IAS 38.

b) If an entity measures holdings of cryptocurrencies at fair value, paragraphs 91–99 of IFRS 13 *Fair Value Measurement* specify applicable disclosure requirements.

c) ~~The Committee noted that,~~ Applying paragraph 122 of IAS 1 ~~*Presentation of Financial Statements*~~, an entity would disclose judgements that its management has made regarding its accounting for holdings of cryptocurrencies if those are part of the judgements that had the most significant effect on the amounts recognised in the financial statements.

d) ~~The Committee also noted that~~ Paragraph 21 of IAS 10 *Events after the Reporting Period* requires an entity to disclose any material non-adjusting events, including information about the nature of the event and an estimate of its financial effect (or a statement that such an estimate cannot be made). For example, an entity holding cryptocurrencies would consider whether changes in the fair value of those holdings after the reporting period are of such significance that non-disclosure could influence the economic decisions that users of financial statements make on the basis of the financial statements.